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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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OCTOBER 1, 1995 ~ MARCH 31, 1996

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The Office of the Inspector General (OIG) is an independent organization charged with reporting to the Tennessee Valley Authority (TVA) Board of Directors and Congress on the overall efficiency, effectiveness, and economy of TVA programs and operations. The OIG meets this responsibility by conducting audits, investigations, and other reviews.

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office.

**TVA  
INSPECTOR  
GENERAL**

**Hotline**

Call toll free:  
**1-800-323-3835**  
423-632-3550 (Knoxville)

**Tennessee Valley Authority**  
400 West Summit Hill Drive ET 4C  
Knoxville, Tennessee 37902-1499



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

George T. Prosser  
Inspector General

April 30, 1996

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This semiannual report describes our office's accomplishments for the six-month period ending March 31, 1996.

During this reporting period, we issued 24 audit reports which identified almost \$2.6 million in questioned costs and \$10.9 million in funds which could be put to better use. Our auditors emphasized contract-related issues while also reviewing topics as diverse as the competitiveness of Tennessee-mined coal, proposed barge unloading facilities, and a chemical cleaning process at a nuclear power plant. In addition, an audit of a contractor's proposal involving the transmission and power supply program identified savings of about \$7.7 million.

Our investigations group completed 117 cases and has 154 cases under active investigation. During this reporting period, they identified potential recoveries of more than \$1 million, and their work resulted in 7 indictments and 12 convictions. Investigations focusing on fraudulent workers' compensation claims resulted in potential long-term savings to TVA of over \$4 million. We also continued our efforts to identify fraudulent temporary living expenses paid to TVA contractors. These cases resulted in avoided costs and realized or potential recoveries of approximately \$500,000 for living expenses that were paid based on fraudulent or ineligible claims.

We also completed seven special projects, including reviews of the Concerns Resolution Program at a TVA nuclear plant, employee sick leave use, and a relocation services contract. Virtually, all the employees we interviewed indicated they would report nuclear quality and safety issues to the concerns program, while our report on TVA's \$4.5 million relocation services contract described ways TVA could save as much as \$850,000.

As always, the men and women who work here are striving to serve as a catalyst for excellence at TVA and to justify our office's reputation as an effective and objective factfinder.

Sincerely,

A handwritten signature in black ink, appearing to read "George T. Prosser".

George T. Prosser

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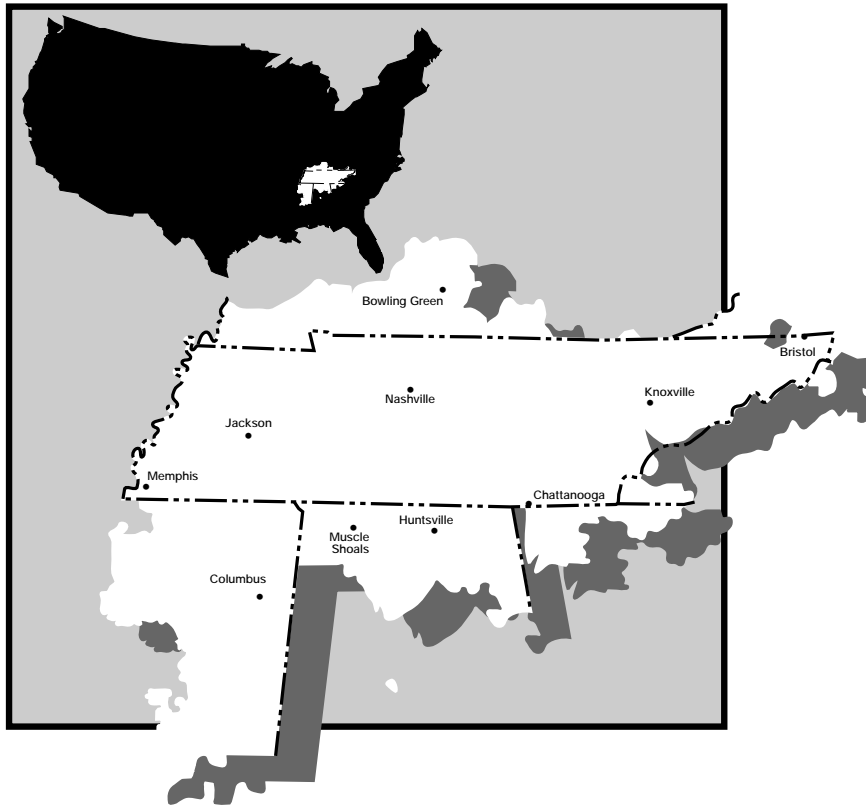
## Appendices

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## ■ EXECUTIVE SUMMARY

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<i>This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending March 31, 1996.</i>	<p>During this reporting period, we continued our efforts to support TVA's goals by providing quality and timely service with a reduced workforce. Overall, we completed 24 audits which identified almost \$2.6 million in questioned costs and \$10.9 million in funds that could be used more effectively. We also completed 117 investigations which identified potential recoveries of more than \$1 million for TVA. Some highlights from this reporting period are described below.</p> <p>Our audit activities ranged from preaward audits involving TVA's power program to continuing our work with OIG investigators and an outside consultant to identify health care overpayments due to fraud, error, and abuse. We also completed more narrowly focused reviews on topics such as the competitiveness of coal mined in Tennessee, the chemical cleaning process used at one of TVA's nuclear plants, and a proposed barge unloading facility. One preaward audit of a contractor's \$120 million proposal identified multi-year savings of about \$7.7 million.</p> <p>Our investigators continued to focus on cases with a potential dollar impact on TVA and integrity issues. One investigation focused on a credit card fraud of</p>	<p>more than \$300,000, while our investigations of workers' compensation fraud resulted in potential long-term savings of about \$4.3 million. In addition, we are also continuing our investigation of fraudulent claims for temporary living expenses by contract employees, and during this reporting period, these investigations have produced over \$350,000 in potential recoveries for TVA. More than 150 cases are under active investigation.</p> <p>Among the seven special projects we completed was a review of the Sequoyah Nuclear Plant's employee concerns program. This review—which included interviews of over 340 employees and contractors—indicated that an overwhelming majority felt free to report nuclear quality and safety concerns. Another review focused on employee sick leave at Watts Bar Nuclear Plant. This review identified 99 employees who took excessive or unusual amounts of sick leave.</p>
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*TVA's 16,463  
employees serve  
an 80,000-  
square-mile  
region spanning  
seven states.*

TVA is a federal corporation responsible for developing and conserving the natural resources of the Tennessee River Valley.

TVA's 16,463 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded by congressional appropriations.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate.

Craven Crowell is the Chairman, and Johnny H. Hayes and William H. Kennoy are Directors.

TVA's goals are Customer Driven, Employee Sensitive, Environmentally Responsible, and Growth Oriented. TVA's vision is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs."

## Organization

The OIG's Investigative Operations unit consists of an investigative services and hotline group and two investigative departments. One department focuses on contract issues, workers' compensation cases, and employee integrity matters; and the other department focuses on environmental issues, nuclear issues, and benefits and entitlement programs.

The OIG's Audit Operations unit consists of four departments, two of which are devoted to contract-related topics and high-profile customer requested services. Two other departments focus on performance, financial, and ADP-related issues.

## Office Authority

The TVA Board of Directors administratively established the OIG during October 1985. During its early years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers granted by a provision in a TVA appropriations bill. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 new statutory offices whose Inspector General was appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

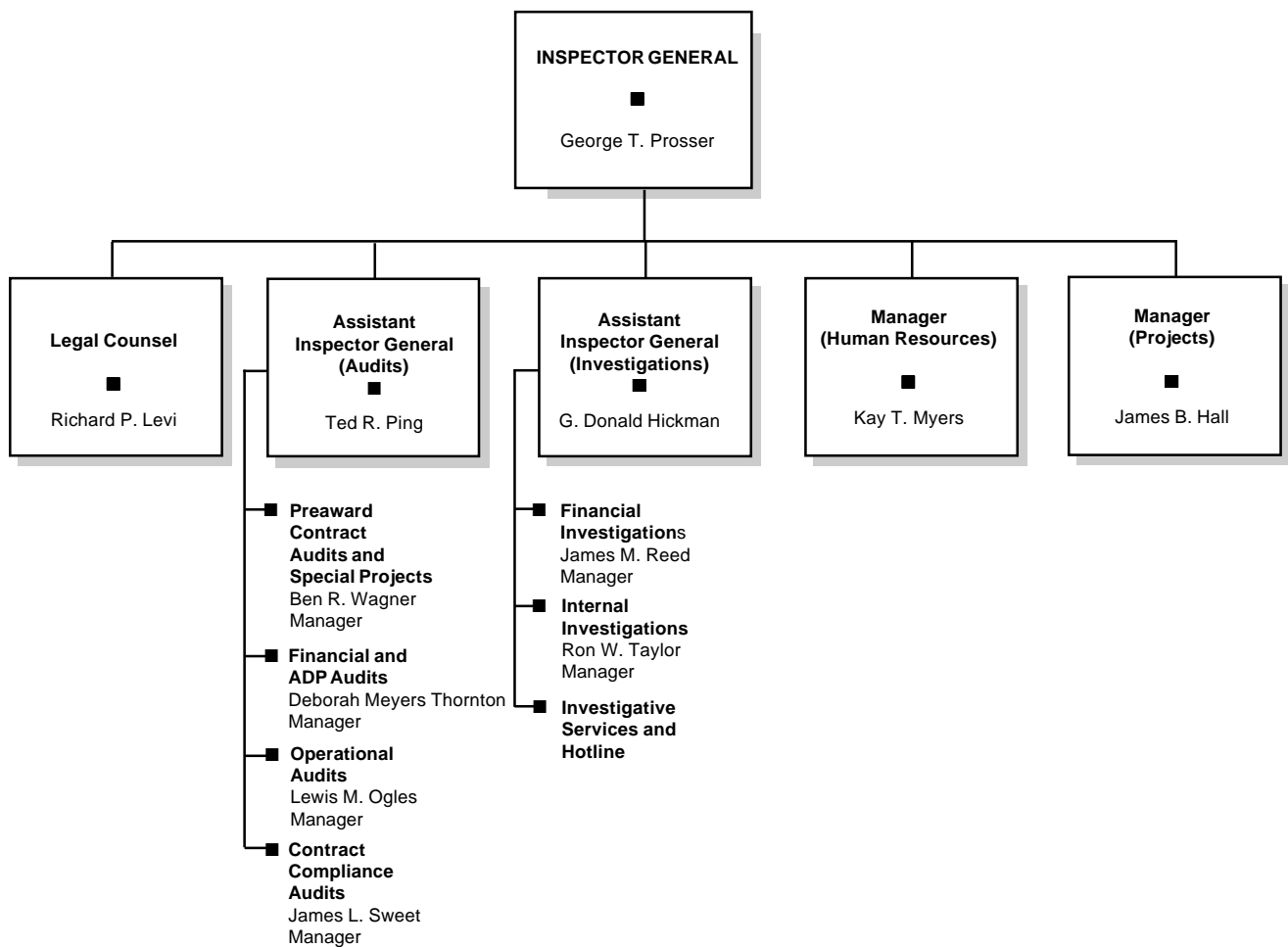
George T. Prosser became TVA's third Inspector General on April 1, 1994.

## Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has investigative satellite offices in Chattanooga, Tennessee, and Huntsville, Alabama.

The OIG's fiscal year 1996 budget is about \$7.3 million, and during this reporting period, the OIG had approximately 95 employees.

### OFFICE OF THE INSPECTOR GENERAL



# Take two aspirin and I'll bill you in the morning.



*Did you know . . . health care fraud adds 10 percent to all health care costs nationwide? This means higher employee payments for your medical plan. Benefit Services and the Office of the Inspector General are working to protect you and cut your medical plan costs.*

**If you suspect health care fraud, call the OIG Hotline  
1 - 8 0 0 - 3 2 3 - 3 8 3 5**

## Health Benefits Review

In our last semiannual report, we discussed our increased efforts to identify and prevent fraud, waste, and abuse in TVA's health care program. (TVA operates a "self-insured" plan and contracts with third-party administrators to process and pay claims submitted under the plan.) A major component of our efforts was the review of claims submitted under the plan.

To date, our ongoing review has identified overpayments in (1) the coordination of benefits with Medicare and (2) credit balances held by providers. In the first area, our review identified instances where TVA paid claims which Medicare should have paid. In the second area, our review found providers who kept overpayments rather than refunding them.

During this reporting period, with the assistance of TVA management, we initiated an employee awareness campaign. The campaign was designed to (1) inform employees and their families of the impact of fraud, waste, and abuse on their benefits; (2) educate them on ways to identify questionable charges; and (3) encourage them to report questionable charges to the OIG. Our campaign included articles in TVA's employee newsletter, messages printed on insurance benefit statements sent to employees, and posters encouraging employees to report questionable charges to the OIG.

After our campaign started, calls to the OIG Hotline increased about 20 percent, and we have opened numerous cases based on these calls.

We issued 24 audit reports that identified almost \$2.6 million in questioned costs and \$10.9 million in funds which could be put to better use (see Appendix 1).

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others.

### Summary of Representative Audits

Our audits included performance reviews of TVA programs, processes, and systems, as well as compliance audits and preaward audits of TVA contractors.

#### **Over \$2 Million in Tools Found Missing**

In conjunction with an OIG investigation into alleged tool theft, we performed an audit of the Tool Management Program (TMP) which was managed by a TVA contractor. We determined that over \$2 million in small and tagged tools could not be accounted for by the contractor's inventory system. The primary reasons for the inventory shortages were (1) apparent theft of tools and (2) significant material

weaknesses in the internal control system used by the contractor to manage the inventory system. We also found that this contractor made unauthorized purchases of computer hardware and software for TMP totaling over \$107,000. We recommend the contractor be held responsible for these losses and that TVA seek recovery for the total value of stolen and unaccounted for tools.

#### **Competitiveness of Tennessee-Mined Coal**

At the request of the TVA Board, we reviewed the competitiveness of Tennessee-

mined coal. Our objective was to determine how competitive Tennessee-mined coal was to other coal in terms of cost and service reliability.



TVA purchases over 35 million tons of coal annually at a cost of over \$1 billion to fuel TVA's 11 fossil-fueled power plants. Tennessee-mined coal repre-

sents only about 5 percent of this total. Although Tennessee coal is a relatively small portion of TVA's total coal purchases, TVA buys between 50 and 60 percent of the total annual tonnage produced in Tennessee.

We found TVA's purchases of Tennessee coal were small in relation to total purchases because (1) the quantity of Tennessee coal available and offered to TVA was limited and (2) Tennessee coal tends to be less competitive than other coal offered to TVA. Tennessee coal is at a competitive disadvantage due to its geological aspects. With regard to the quality of service of Tennessee coal producers, we found no indications that Tennessee coal producers were any more or less reliable than producers from other areas.

#### **Savings of \$7.7 Million Identified on Construction Contract**

We audited a contractor's proposal to provide general construction/craft services and equipment for TVA's transmission/power supply program under a planned \$120 million three-year contract. We identified savings over the three-year life of the contract of about \$7.7 million.

- The proposed craft labor rate overstated payroll taxes, overhead, and other expenses, resulting in revised rate schedules which saved TVA about \$4,979,000.
- The proposed non-manual indirect rate overstated payroll taxes and overhead, resulting in non-manual labor billings which could overstate costs billed to TVA by about \$373,000.
- The contractor's proposed daily billing rates for equipment which could inflate costs to TVA by about \$2,340,000.

TVA management agreed with our findings and incorporated the results into the final contract that was negotiated.

#### **Contractor's Proposed Costs Overstated by Approximately \$1.6 Million**

TVA entered a contract in August 1992 to obtain engineering services in a partnership arrangement for Fossil and Hydro Power (F&HP). At TVA's request, we audited the proposed overhead and general and administrative (G&A) rates by the contractor submitted for an extension of the contract. We determined that TVA could save an estimated \$1.6 million (excluding fees) by removing

unallowable and unsupported costs from the overhead and G&A rate calculation. TVA management is currently considering our recommendations as they conclude the final negotiations for the contract extension.

#### **Flow Element Chemical Cleaning Process Used at Sequoyah Nuclear Plant (SQN)**

Based on an allegation made to the OIG, we reviewed the tracking guidelines applicable to the waste generated

during the flow element chemical cleaning process used at SQN.

We found SQN complied with the regulatory requirements for tracking flow element chemical cleaning process waste.

However, we

recommended that SQN could improve its waste disposal process by (1) revising its flow element chemical cleaning process procedures and (2) relabeling its waste treatment ponds.

TVA management generally agreed with the audit findings and took action to address our recommendations.



#### **Financial Review of a Regional Industrial Development Association Revealed Control Weaknesses**

We audited a regional industrial development association that was established to encourage and promote industrial growth in Tennessee. At the request of the Association's audit subcommittee, we performed a financial review of the Association's record-keeping and internal financial controls for June 1, 1992, through May 31, 1995. We found the Association had a weak internal control structure primarily because of inadequate oversight by the Executive Committee. The lack of oversight was demonstrated by the filing of erroneous Internal Revenue Service (IRS) forms in 1992, 1993, and 1994 and failure to file a required IRS form in 1992. The lack of oversight is also demonstrated by the Association's failure to adequately safeguard assets and records, the lack of written policies and procedures, and the Executive Committee's failure to comply with the bylaws regarding the hiring of an external auditor.

The Association intends to implement all recommendations. Specifically, the Executive Committee has formed two subcommittees to provide better

oversight of business operations, provided increased security for financial records, and hired a Certified Public Accountant (CPA) firm for the 1995 financial audit. The Association's new CPA firm is investigating and will advise the Executive Committee on the filing of the amended IRS forms. Furthermore, the new Executive Director has been instructed to review the Association's insurance coverage and begin developing written personnel, operating, and travel policies and procedures. TVA management concurred with the recommendations.

#### **Partnership Proposed Overhead Rates Overstated by Approximately \$693,000**

At TVA's request, we audited a contract extension proposal. TVA entered this contract in August 1992 to obtain engineering services in a partnership arrangement. According to F&HP, it plans to extend the contract effective December 1995, but will not increase the total authorized amount. As of September 30, 1995, the authorized contract amount was \$47 million with almost \$12 million remaining for the contract extension. We determined that TVA could save \$278,881 (excluding fees) by using a single overhead and G&A rate instead of separate onsite and

offsite rates. TVA could save an additional \$413,671 (excluding fees) by removing unallowable and unsupported costs from these overhead and G&A rates. Also, we recommended that TVA ensure that the appropriate information processing rates are included in the contract extension rate schedule. TVA management is currently considering our recommendations as they conclude the final negotiations for the contract extension.

#### **Proposal for a Barge Unloading Facility Overstated**

We audited a contractor's \$12.7 million fixed price proposal for the design and construction of a barge unloading facility at Gallatin Fossil Plant. We found:

- TVA could save \$295,335 by eliminating cost contingencies, paying for non-manual labor at a baseline rate, and adjusting overstated materials and builders risk insurance costs.
- The project cost could increase substantially if TVA provides insurance coverage through its owner controlled insurance program unless coverage is limited to the total labor hours the contractor included in the proposal.

- Because TVA did not competitively bid the project, the proposed price might be inflated in addition to the areas discussed above. To protect against excessive profits, we suggested TVA reimburse the contractor's actual costs, limited to a maximum amount, rather than pay the fixed price.

The final contract price was reduced \$217,728 to eliminate 73 percent of the questioned costs. Also, TVA management decided not to provide insurance coverage for the project. TVA negotiated a task authorization based on the contractor's actual costs, which are limited to a maximum estimate.

#### **Review of TVA's Fiscal Year 1994 Financial Statement Audit**

In accordance with the TVA Act and Basic TVA Power Bond Resolution, TVA annually prepares financial statements accompanied by the opinion of a CPA firm. TVA contracted with Coopers and Lybrand (C&L) to audit TVA's fiscal year 1994 financial statements. C&L issued an unqualified opinion with an emphasis of a matter paragraph pertaining to TVA reevaluating completing certain nuclear units as part of its long-term energy strategy.

Consistent with the Inspector General Act and the Chief Financial Officers Act, we reviewed the C&L audit of TVA's fiscal year 1994 financial statements to determine if the audit reasonably complied with professional auditing standards and significant legal requirements pertaining to TVA's financial reporting.

In our opinion, the C&L audit of TVA's fiscal year 1994 financial statements reasonably complied with professional auditing standards and significant legal requirements.

#### **TVA Was Overbilled for Subcontractor Labor**

At TVA's request, we audited the work billed by a subcontractor. Our audit objective was to determine if the subcontractor's charges were supported and allowable. TVA entered this contract to obtain fossil and hydro engineering services in a partnership arrangement, and as of March 31, 1995, TVA had paid \$3.8 million for the subcontractor's work. The contract did not contain a preauthorized amount for subcontractor labor or expenses. We concluded that TVA paid approximately \$267,871 for the subcontractor's work which was unsupported or inaccurately billed. In addition, we determined that TVA overpaid for inflated labor markup

rates on the subcontractor's work. The amount of this overpayment has not been determined at this time. The contractor proposed a credit of \$12,449 to correct the overpayments; however, we believe the amount of credit should be much higher. We plan to perform additional audit procedures to verify the accuracy of the credit amount.

TVA management concurred with our audit findings and has initiated the necessary contract actions to recover the questioned costs. Management has agreed to delay settlement of the labor markup credit until we have completed our additional audit work.

### **Contractor's Proposed Costs Fairly Stated**

We reviewed a contractor's proposed costs for providing modifications and supplemental maintenance services at TVA's nuclear plants. The proposed costs were fairly stated except for some corrections to the non-manual labor markups for fringe benefits, payroll taxes, and vacation and holiday costs. The contractor agreed to these corrections, which are estimated to save TVA about \$97,300. TVA management has incorporated the audit results into the final contract.

### **UNRESOLVED AUDIT REPORTS WHICH WERE ISSUED PRIOR TO OCTOBER 1, 1995**

Listed below is an audit report we issued before this reporting period began and for which no management decision was made by March 31, 1996.

<b>Date Issued</b>	<b>Audit Number</b>	<b>Report Title</b>	<b>Why Management Decision Has Not Been Made</b>
9/29/95	95-072C	Intersteel, Inc. Prevailing Wage	TVA management is currently considering a plan to resolve this audit.

In the last six months, we substantiated 40 of the 117 allegations we investigated—almost 35 percent. Our cases also led to more than \$1 million in potential monetary recoveries, 7 indictments, and 12 convictions. Representative investigations are highlighted below.

### Summary of Representative Investigations

#### **WORKERS' COMPENSATION CLAIMS**

Two former employees were convicted in federal court of charges relating to their fraudulent receipt of workers' compensation benefits. These are the first convictions of former TVA employees under Public Law 103-333 which requires the Office of Workers' Compensation Programs (OWCP) to terminate the benefits of recipients convicted of workers' compensation fraud.

The termination of the two former employees' benefits resulted in potential long-term savings to TVA of almost \$1.4 million. These two cases are described below.

- A former laborer was placed on two years' probation after he pled guilty to four counts of making false

statements to OWCP and the OIG relating to his receipt of workers' compensation benefits. The laborer failed to report to OWCP that he worked for a local farmer and at a garage.

- A former power shovel operator and his wife pled guilty to three counts of providing false information to OWCP, one count of conspiracy to defraud the government, and one count of aiding or assisting in the preparation of a false tax return. The former employee also pled guilty to one count of defrauding the Social Security Administration. The former employee failed to report to OWCP that he owned and operated a company which offered bulldozing and backhoeing services. To hide his activities, the former employee and his wife created a trust into which all the income from the business was funneled. As part of their plea agreement, they agreed to make restitution of \$82,312 to OWCP and \$9,425 to the Social Security Administration.

In addition to these convictions, our other efforts in this area are described below.

- A former carpenter agreed to ask OWCP to terminate his benefits as part of a pretrial diversion program.

The former employee failed to report that he was actively involved in a “handy man” business.

- A five-count information was filed in federal court against a former electrician and his wife for making false statements to OWCP. More specifically, the former employee and his wife failed to report that he owned and operated an electrical business and earned more than \$116,000.
- A federal grand jury indicted a former employee for failing to report to OWCP that he had earned more than \$52,000 building barns. In connection with our investigation, the former employee’s brother pled guilty to making false statements to the grand jury and the OIG concerning his brother’s employment activities. The brother also was fined in state court after he pled guilty to harassing the OIG agent during the investigation.
- Our investigation of two claims for benefits resulted in (1) one claim being withdrawn before OWCP had accepted the claim and (2) one employee returning to work.

## FALSE CLAIMS

We continue to investigate false claims in several areas, including temporary living expenses (TLE) and energy conservation loans.

## Temporary Living Expenses

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible TLE paid to TVA contractors. During this reporting period, our efforts resulted in (1) TVA management agreeing to seek recovery of almost \$368,600 from six contractors, (2) recommendations for management to seek recovery of more than \$183,500, and (3) an estimated annual cost avoidance of \$91,800 due to eight employees being taken off TLE.

In addition, four contract employees pled guilty and two were indicted for making false claims for TLE. One of the contract employees was sentenced to three years’ probation, 200 hours of community service, and ordered to make \$9,400 in restitution to TVA. Another contract employee was sentenced to three years’ probation, fined, and ordered to repay \$11,000 for TLE she improperly received. A third contract employee was sentenced to three months’ electronically monitored home detention, 200 hours of community service, and two years’ supervised probation. A fourth contract employee pled guilty to 58 counts of making false claims to fraudulently obtain about \$40,000 in TLE. Another contract employee, who previously pled guilty to

making false statements and claims for TLE, was sentenced to five years' probation and ordered to repay \$11,636.

### **Credit Card Fraud**

The owner of a computer repair company was ordered to repay more than \$304,000 to TVA and was sentenced to two years in prison and three years' probation after pleading guilty in federal court to making a false claim to TVA. (TVA contracted with the company to service and maintain its personal computers and printers.) Our investigation revealed the owner used a TVA credit card and billed TVA more than \$300,000 for work that was never performed.

### **Energy Conservation Loans**

We have completed our investigation of defaulted TVA Commercial and Industrial energy conservation loans in the Memphis, Tennessee, area. During this reporting period, a former pastor was found guilty of two counts of bank fraud, one count of mail fraud, and one count of making a false claim. The former pastor obtained a loan from TVA for \$13,400 to install storm windows at his church. However, no storm windows were ever installed. The former pastor was sentenced to 18 months in jail and three years' probation. Further, he was ordered to make restitution to TVA.

### **MISUSE AND THEFT OF TVA EQUIPMENT**

Our investigation of misuse of property included vehicle misuse, telephone misuse, and theft.

Two TVA employees resigned or were terminated because they misused TVA vehicles. In one instance, the employee was arrested and charged with driving under the influence while driving a TVA vehicle. In the other case, the employee admitted driving a TVA vehicle to Mississippi and New Orleans on personal trips.

A TVA pilot resigned after our investigation revealed he (1) used a TVA car for personal trips, (2) misused TVA telephones, (3) falsified flight records, and (4) made false statements to the OIG and management.

Our investigation of three individuals' misuse of TVA telephones resulted in TVA being reimbursed more than \$32,000 for unauthorized long distance telephone calls. In one case, a TVA specialist resigned after our investigation revealed he made 5,441 calls totaling 29,826 minutes. TVA required the specialist to reimburse TVA more than \$10,000 for the cost of his calls and the cost of the time he spent on personal telephone calls while at work.

In another case, two contract employees admitted using their TVA telephones to make over 2,100 unauthorized long distance telephone calls totaling 20,427 minutes. The employees reimbursed TVA \$12,300 for the calls.

As a result of our investigation of a citizen's tip that there were stolen tools at a home near the Browns Ferry Nuclear Plant, a contract electrician (1) was terminated by his employer, (2) was barred by TVA from future work at TVA facilities, (3) pled guilty in federal court to theft of about \$1,600 of TVA property, and (4) was fined \$750. (The property was recovered.)

### **SEXUAL MISCONDUCT**

Representative sexual misconduct investigations include the following.

An accounting officer was suspended for five days after our investigation revealed he sexually harassed an accounting clerk and used sexual language during personal telephone calls at work. (Management also gave the employee a written warning for making more than 1,000 unauthorized personal long distance telephone calls and required him to repay TVA \$2,687 for the calls.)

A TVA Nuclear manager was denied a merit increase and was removed from his position after our investigation revealed he made inappropriate remarks of a sexual nature to his subordinates. In addition, he violated TVA policy by treating the women he supervised in a condescending and demeaning manner.

### **ETHICS VIOLATIONS**

Three representative ethics investigations are described below.

TVA terminated a project manager after our investigation revealed he used his TVA position to arrange for a TVA contractor to hire his daughter. In addition, he submitted a falsified timesheet to the contractor for the hours his daughter worked. The manager also violated ethics regulations when he directed his subordinates to do personal work for him, i.e., to train his daughter on a computer program on TVA time.

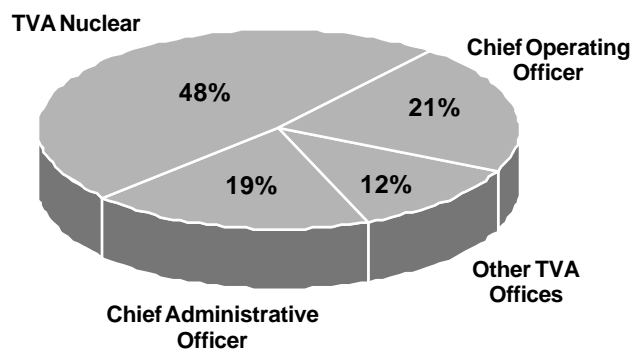
Twelve TVA Nuclear employees received written warnings after our investigation revealed they accepted meals and gratuities from four contractors in violation of conduct and procurement integrity standards. However, our investigation revealed no evidence

these gratuities influenced any TVA employee's decision concerning these contractors.

A TVA surplus specialist was demoted and suspended for 30 days after our investigation revealed he created an appearance of using his public office for private gain. The specialist was a TVA auctioneer. After auctioning a TVA lawn

mower to a private buyer at a public auction, the auctioneer subsequently bought the lawn mower from the original purchaser.

Our investigations involve programs and activities affecting many TVA organizations. These organizations are shown below for cases we closed this reporting period.



## NUCLEAR-RELATED ISSUES

During this reporting period, we completed 13 investigations involving nuclear-related issues, including 6 cases involving complaints filed with the U.S. Department of Labor under Section 211 of the Energy Reorganization Act. In the majority of our nuclear-related investigations, we found no evidence of employee misconduct. We investigated the Section 211 complaints at TVA management's request in order to

provide factual and independent information to help ensure employees feel free to raise concerns.

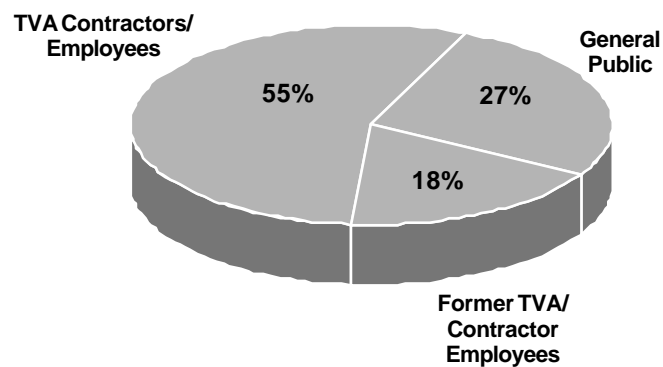
## SAFETY ISSUES

We investigated a work-related injury to an employee after management allegedly tried to pressure the employee to return to work and cover up the accident by not reporting it as a lost-time accident. (The employee received second and third degree burns while

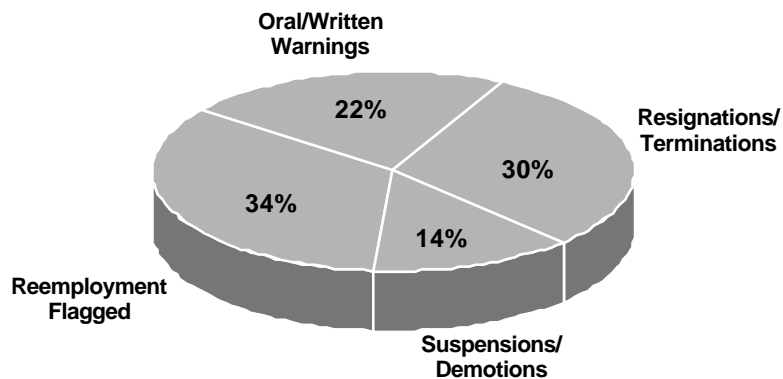
working on a burner at a fossil plant.) While our investigation revealed management aggressively tries to return injured employees to work, our evidence showed no misconduct in connection with TVA's effort to return the employee to work. However, in our

opinion, the accident should have been recorded as a lost-time accident. After our investigation, TVA management reclassified the work-related injury as a lost-time accident.

**Calls Made to the OIG Hotline  
During this Reporting Period**



**Administrative and Disciplinary Actions Since  
April 1, 1991\***  
Total = 360



\*Prosecutive referrals are shown at Appendix 3.

In addition to conducting audits and investigations, our office also completed a number of special projects. In many cases, these projects were requested either by the Board of Directors or TVA executive management. Three such projects are highlighted below.

### **CONCERNS RESOLUTION STAFF (CRS) REVIEW AT SQN**

The willingness of workers to raise safety and quality concerns and the availability of mechanisms to resolve such issues promote the safe operation of TVA's nuclear power plants. To ensure that TVA has an effective mechanism for raising and resolving these concerns, we periodically review the CRS program at each nuclear plant. This reporting period, we interviewed over 340 randomly selected SQN employees and contractors and reviewed recently closed CRS and Employee Concerns Program (ECP) files. Our review indicated:

- Contractors and employees feel free to report nuclear safety or quality concerns. Only 3 out of 343 interviewees said they would not report a problem, if they knew of one, through their supervisor. In addition, 98 said they had reported a problem to their supervisor and all of them said they would do so again.

- About 95 percent of those interviewed would report issues to CRS or ECP, if the need arose. Most of the remaining 5 percent would report these issues elsewhere.
- Interviewees were more positive about how well SQN is addressing problems. Our survey recorded a positive increase of 13 percent, from 80 percent (in our 1994 survey) to 93 percent.

### **SICK LEAVE REVIEW**

At the request of the President of TVA Nuclear, we reviewed sick leave use at Watts Bar Nuclear Plant (WBN). We determined that a substantial portion of WBN's sick leave appears to be controllable and that TVA Nuclear could reduce such sick leave by establishing a computerized screen to identify suspicious sick leave patterns. By applying our screen at WBN, we identified 99 employees—about 8 percent of WBN's workforce—whose sick leave appeared excessive in comparison to that of their counterparts. We also found that some work groups had disproportionately high levels of suspicious sick leave use. For example, payroll groups with the highest level of suspicious absences used 12 times as much sick leave as groups with the lowest sick leave levels.

Based on the results of this review and our previous reviews of sick leave use at other TVA nuclear plants, TVA management is implementing a computerized screen to identify potential sick leave abuse.

### **UNEMPLOYMENT COMPENSATION CLAIMS**

In a prior reporting period, an OIG inspection revealed that a significant number of employees who accepted voluntary incentives to leave TVA later obtained state unemployment compensation benefits. At that time, we estimated TVA incurred avoidable unemployment compensation costs of as much as \$3~5 million.

TVA management subsequently decided to contest unemployment compensation payments sought by employees who accepted incentives during a later TVA downsizing. To date, 1,015 former employees have sought such benefits, and state officials have denied approximately 900 claims. Nearly 400 of these denials are final (the remainder are at some stage of the appeals process), and only a handful of the claimants have been successful.

Denial of these claims will result in substantial savings. For example, in Tennessee (where 908 claims have

been filed) a former employee could receive about \$5,000 in state unemployment compensation benefits. Accordingly, favorable decisions involving these claims could save TVA as much as \$4.5 million in avoided unemployment compensation costs.

### **SEMIANNUAL REPORT ON WORLD WIDE WEB**

This is the first OIG semiannual report that is available electronically on the World Wide Web. More specifically, the OIG's "home page," which is accessible through TVA's Internet Web site, contains links which allow Internet users to obtain a full text copy of this and future semiannual reports.

In the past, portions of our report have been available electronically. However, using commercially available software, we are now able to make the complete text of the report more widely available.

Making the report available electronically speeds dissemination and allows Internet users to read and print a copy. Moreover, to the extent that "publishing" our report on the Internet allows us to eventually reduce our reliance on printed copies and achieve wider dissemination of our report, our per copy costs will be reduced.

For future editions, we will be considering the pros and cons of distributing the report to our primary audiences via the Internet and then reducing or eliminating its distribution in printed form. If we decide to rely on the Internet for the distribution of future semiannual reports, we will send each current report recipient an executive summary of that reporting period's achievements and instructions on how the full report can be accessed via the "net."

Instructions on accessing our report through the Internet are outlined below.

You will need two software programs to obtain and read the report—a World Wide Web browser and the Adobe Acrobat Reader. A variety of Web browser softwares are available commercially or as freeware. Because our report is in Adobe's PDF format, you will also need the Adobe Acrobat Reader on your computer to read and print the report once you have accessed it using the Web browser. The reader software is available free from Adobe. (A link to Adobe's Web site where you can download the reader software is provided from our semiannual reports page for readers who do not have it.)

To access the semiannual report, open your Web browser software and:

- Enter the URL "http://www.tva.gov/oig" (do not include the quote marks) as required by your particular software to go to the TVA OIG Home Page.
- In the section titled "About the TVA OIG," click on "Semiannual Reports."
- Click on "20th Semiannual Report."

If you already have the Adobe Reader and it is linked to your Web browser software, when you click on 20th Semiannual Report, your browser should automatically open the reader and let you immediately view and print the report. If you do not have the reader installed or it is installed but not linked to your browser, you can save the report file and then open it from the reader software later.

## ■ APPENDICES

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**OIG AUDIT REPORTS ISSUED DURING  
THE SIX-MONTH PERIOD ENDING MARCH 31, 1996**

The following table summarizes final audit reports issued by the OIG from October 1, 1995, through March 31, 1996.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
10/10/95	95-077S	Stone & Webster Engineering Corporation - Preaward Audit for Sequoyah Nuclear Plant	\$87,000		\$28,000
10/18/95	95-073P	Competitiveness of Tennessee-Mined Coal			
11/7/95	95-082S	R&S Barge Unloader - Preaward			295,335
11/28/95	95-045C	Gilbert Commonwealth, Inc. - Preaward			692,552
11/28/95	95-060C	UESC Subcontract With G/C - Contract TV-89742V	267,871	\$267,871	
11/30/95	96-013S	Sargent & Lundy, L.L.C. - Preaward Audit for Transmission/Power Supply			
12/27/95	96-007S	Millennium Computer Technology - Audit of Salary and Burden Rates			510,000
1/16/96	95-078C	Raytheon - Review of Provisional Rates for CY 1992 on Contract 90P2S-79058B	11,839		
1/26/96	95-084S	Williams Power Corporation - Preaward Audit of Extension Agreement Proposal - Contract 93PGB-77793B			
1/29/96	95-083P	Review of Flow Element Chemical Cleaning Process			
2/9/96	96-006P	TVA's Compliance With the Byrd Amendment			
2/14/96	96-021S	The L. E. Myers Company - Preaward			7,692,000

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
2/21/96	95-043C	FD Engineers & Constructors, Inc.	\$2,125,933	\$2,018,933	
2/29/96	96-031C	Gilbert/Commonwealth TV-89742V 1994 Costs	75,509	75,509	
3/4/96	96-025S	Stone & Webster Construction Company, Inc. - Preaward Audit for TVA Nuclear			\$97,300
3/4/96	96-026S*	Bechtel Power Corporation - Preaward Audit for TVA Nuclear Power			
3/11/96	96-011P-01	Audit of Tennessee Coal Companies - U. S. Coal			
3/15/96	95-052F	Financial Review of West Tennessee Industrial Association			
3/20/96	95-044S	Vallen Safety Supply Company - Contract P93X8A-01691A-000	31,530	31,530	13,500
3/27/96	96-011P-03	Audit of Tennessee Coal Companies - Onyx International			
3/27/96	96-032P	Three Rivers Planning and Development District			
3/29/96	96-020C	Gilbert/Commonwealth, Inc. Contract TV-89742V Extension - Overhead and G&A - Preaward			1,580,323
3/29/96	96-030S	GUBMK Preaward			
3/31/96	96-008F-01	TVA Annual Financial Statement Audit - FY 1994			
<b>TOTAL</b>	<b>24</b>		<b>\$2,599,682</b>	<b>\$2,393,843</b>	<b>\$10,909,010</b>

\* Contract not awarded.

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE  
SIX-MONTH PERIOD ENDING MARCH 31, 1996**

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

**TABLE I  
TOTAL QUESTIONED AND UNSUPPORTED COSTS**

<b>AUDIT REPORTS</b>	<b>NUMBER OF REPORTS</b>	<b>QUESTIONED COSTS</b>	<b>UNSUPPORTED COSTS</b>
A. For which no management decision has been made by the commencement of the period	4	\$2,330,876	\$17,588
B. Which were issued during the reporting period	6	2,599,682	2,393,843
Subtotal (A+B)	10	\$4,930,558	\$2,411,431
C. For which a management decision was made during the reporting period	7*	2,505,224	93,097
1. Dollar value of disallowed costs	4	407,601	17,588
2. Dollar value of costs not disallowed	5	2,097,623	75,509
D. For which no management decision has been made by the end of the reporting period	3	2,425,334	2,318,334
E. For which no management decision was made within six months of issuance	1	0	0

\* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

TABLE II  
FUNDS TO BE PUT TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	6	\$3,785,754*
B. Which were issued during the reporting period	8	10,909,010
Subtotal (A+B)	14	\$14,694,764
C. For which a management decision was made during the reporting period	8**	4,109,089
1. Dollar value of disallowed costs	5	3,898,968
2. Dollar value of costs not disallowed	5	210,121
D. For which no management decision has been made by the end of the reporting period	6	10,585,675
E. For which no management decision was made within six months of issuance	0	0

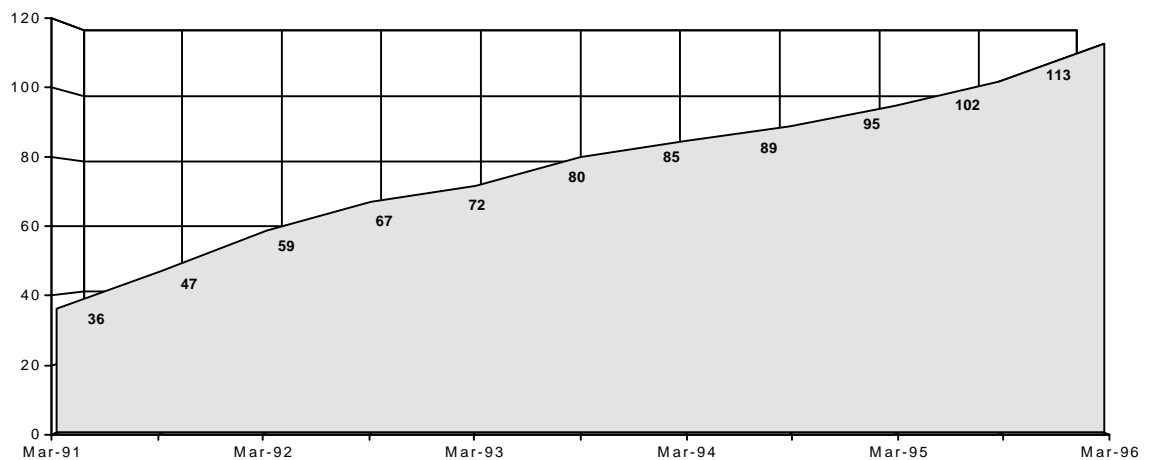
\* This number differs from the prior report's ending number due to a data entry error on an issued audit in the prior period.

\*\* The total number of reports differs from the sum of C.1 and C.2 when the same reports contain both costs disallowed and not disallowed by management.

### INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	13	7 Indictments 12 Convictions 9 Declinations
Subjects referred to other agencies for investigative or administrative action	0	OWCP declared \$118,011 in overpayments and saved TVA more than \$4.3 million in estimated long-term workers' compensation costs.
<b>TOTAL</b>	<b>13</b>	

**Convictions Since October 1, 1990**  
(Cumulative)





Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

Craven Crowell  
Chairman, Board of Directors

May 6, 1996

TO THE UNITED STATES CONGRESS:

We are providing TVA's Report on Final Actions on Inspector General audit recommendations, in keeping with Section 5(b) of the Inspector General Act of 1978, as amended.

TVA is in its ninth consecutive year of having no increase in electric power rates and we welcome the continued support of the Inspector General in meeting our goals of being customer driven, employee sensitive, environmentally responsible, and growth oriented.

Sincerely,

A handwritten signature in cursive script that reads 'Craven Crowell'.

Craven Crowell

Enclosure

**TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING MARCH 31, 1996**

The following Tables I and II summarize final action taken by management on OIG audit reports. The tables reflect amounts which were agreed to by management and track the disposition of these amounts through final action. Table III contains the explanations by audit report for final actions not taken within one year of the management decision dates.

**TABLE I  
DISALLOWED COSTS**

<b>AUDIT REPORTS</b>	<b>NUMBER OF REPORTS</b>	<b>AMOUNTS AGREED BY MANAGEMENT</b>
A. For which final action by management had not been taken by 9/30/95	9	\$4,437,033
B. On which management decisions were made from 10/1/95 through 3/31/96	7	407,601
Subtotal (A + B)	16	\$4,844,634
C. For which final action was taken by management from 10/1/95 through 3/31/96		
1. Amounts that were recovered by management	9 *	459,804 **
2. Amounts that were not recovered by management	3 *	249,689
D. For which management has taken no final action by 3/31/96	8 *	4,135,141

\* The number of reports will differ from the arithmetic total when a final audit action includes both amounts recovered and amounts not recovered for a single audit report.

\*\* Excludes excess recovery of \$210,740.

TABLE II  
RECOMMENDATIONS THAT FUNDS BE PUT  
TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED BY MANAGEMENT
A. For which final action by management had not been taken by 9/30/95	4	\$1,733,238
B. On which management decisions were made from 10/1/95 through 3/31/96	8	3,898,968
Subtotal (A + B)	12	\$5,632,206
C. For which final action was taken by management from 10/1/95 through 3/31/96		
1. Dollar value of recommendations implemented by management	9 *	3,859,206
2. Dollar value of recommendations not implemented by management	1 *	88,762
D. For which management has taken no final action by 3/31/96	3 *	1,684,238

\* The number of reports will differ from the arithmetic total when a final audit action includes both recommendations implemented and recommendations not implemented for a single audit report.

TABLE III  
EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN

AUDIT REPORT NUMBER	DATE ISSUED	DISALLOWED COSTS	FUNDS PUT TO BETTER USE	EXPLANATION FINAL ACTION NOT TAKEN
Oracle Corporation, Contracts 90BBY-93697C and TV-87601V 92-082F	3/31/94	N/A	\$370,925	TVA will continue to pursue the desired solution with Oracle concerning these funds.
Controls Over TVA Telephone Services 93-024F	3/31/95	N/A	N/A	TVA is developing a security plan and manual and is taking numerous other actions to improve telephone security. TVA expects to issue the security plan and manual and complete these actions by September 1996.
LAN and WAN Management and Operation 93-029F	12/20/93	N/A	N/A	TVA has drafted a network security policy and plans to have it approved and issued by June 1996.
Review of TVA Safety Program 94-012P	2/8/95	N/A	N/A	TVA has drafted a policy and plans to submit it to the Executive Committee for approval in June 1996.
Special Opportunities For Counties Program 94-014P	5/26/94	N/A	N/A	TVA has established a quality improvement team to review the entire loan process. This review should be completed by September 1996.
Health Care Fraud Controls 94-020P	9/27/94	\$1,000,000	N/A	TVA signed a contract with Deloitte & Touche, LLP, to review the accuracy of claims payments. This review will be completed by August 1996.
Review of Tennessee Valley Authority's Small Dollar Procurements 94-036F	3/31/95	N/A	N/A	The procurement function, including this issue, will be evaluated for change by the incoming Vice President of Purchasing.

N/A - Not Applicable

NOTE: This table excludes three reports in judicial appeal according to the reporting guidelines of the Inspector General Act.

**OIG SPECIAL PROJECT REPORTS ISSUED DURING THE SIX-MONTH PERIOD  
ENDING MARCH 31, 1996**

During this reporting period, the OIG issued the seven special project reports listed below.

<b>Month Issued</b>	<b>Report Number</b>	<b>Report Title</b>
January 1996	95-916P	Review of Sick Leave at Watts Bar Nuclear Plant
February 1996	96-918S	Concerns Resolution Program—Sequoyah Nuclear Plant
March 1996	96-928S	Solid Waste Disposal and Recycling Program
March 1996	96-927S	TVA Controls on the Use of Form TVA 4421
March 1996	96-926S	Review of TVA Vacant Office Space
March 1996	96-946S	Funding for Partners in Education at Sequoyah Nuclear Plant
March 1996	96-917S	Review of TVA's Contract With Coldwell Banker Relocation Management Services, Inc.

## **OIG REPORTING REQUIREMENTS**

Information required by the Inspector General Act of 1978, as amended, is included in this semiannual report as indicated below.

Section 4(a)(2) — Review of Legislation and Regulations	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 6-21
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 6-21
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 3
Sections 5(a)(5) — Summary of Instances Where Information and 6(b)(2) Was Refused	**
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Audits	Pages 7-12
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	Page 12
Section 5(a)(11) — Significant Revised Management Decisions	***
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	****

\* There were no significant legislation or regulations reviewed during this reporting period.

\*\* There were no instances where information or assistance was unreasonably refused or not provided.

\*\*\* There were no significant revised management decisions.

\*\*\*\* There were no significant management decisions with which the Inspector General disagreed.

	FOR SEMIANNUAL REPORTING PERIODS				
	MAR 31, 1996	SEPT 30, 1995	MAR 31, 1995	SEPT 30, 1994	MAR 31, 1994
<b>ANNUAL BUDGET</b> (In Millions of Dollars)	7.3	8.5	8.5	8.7	8.7
<b>CURRENT STAFFING</b>	95	95	98	118	119
<b>AUDITS</b>					
AUDITS IN PROGRESS					
Carried Forward	29	37	31	29	27
Started	41	43	48	43	36
Canceled	(4)	(10)	(6)	(7)	(3)
Completed	(24)	(43)	(36)	(34)	(31)
In Progress at End of Reporting Period	42	27	37	31	29
AUDIT RESULTS (Thousands)					
Questioned Costs	\$2,600	\$4,319	\$7,042	\$10,948	\$6,708
Disallowed by TVA	408	2,320	2,711	9,900	1,649
Recovered by TVA	460	493	3,933	8,054	1,268
Funds to Be Put to Better Use	\$10,909	\$9,004	\$4,355	\$3,791	\$2,043
Agreed to by TVA	3,899	8,112	1,610	4,004	171
Realized by TVA	3,859	8,143	632	1,477	92
<b>INVESTIGATIONS</b>					
INVESTIGATION CASELOAD					
Carried Forward	138	158	174	149	135
Opened	133	128	120	155	122
Closed	117	(147)	(136)	(150)	(108)
In Progress at End of Reporting Period	154	139	158	154	149
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	32	30	18	38	22
Actions Taken (# of Subjects)	35	21	23	23	19
<b>PROSECUTIVE ACTIVITIES</b> (# of Subjects)					
Referrals	13	17	7	19	8
Indictments	7	5	2	4	2
Criminal Complaints	0	0	0	3	0
Convictions	12	7	6	4	5
<b>SPECIAL PROJECTS</b>					
Completed	7				
Cost Savings Identified/ Realized (Thousands)	\$5,300				

\* Adjusted from previous semiannual reports.

\*\* Excludes excess recovery of \$211.

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